

CHAPTER 17

EXPENSES AND MISCELLANEOUS ITEMS1701 GENERAL

170101. Purpose. This chapter prescribes guidance to account for expenses incurred in carrying out Department of Defense (DoD) operations.

★ 170102. Overview. Expense represents the outflow or other using up of assets or incurrence of liabilities (or a combination of both) during a period of providing goods, rendering services, or carrying out other activities related to the Department's programs and missions, the benefits from which do not extend beyond the present operating period. In financial accounting and reporting, the costs that apply to an entity's operations for the current accounting period are recognized as expenses of that period.

★ 170103. Expenses are the natural culmination of any DoD Component's operations. Expenses are costs that occur as part of normal, routine operations of the Component, as opposed to costs attributable to extraordinary or unexpected events, which are classified as miscellaneous items. An expense normally is an application of budgetary or other resources. Goods and services ordered and received are recorded in the budgetary accounts as expended authority (accrued expenditures) and in the proprietary accounts as an expense. The budgetary accounts provide financial control over the resources provided to the Department and better help to assure a full accounting during the budget execution process. Financial control over all commodities such as material, labor, or supplies shall be maintained until consumed (expensed), sold or transferred in accordance with statutory authority. For Defense Working Capital Fund (DWCF) activities (additional information pertaining to the DWCF may be found in Volume 11B of this Regulation), expenses primarily are incurred in providing goods and services to customers. Figure 17-1 on the following page illustrates the relationship between the budgetary accounts and the expense accounts.

★ 170104. Expenses are classified as to specific categories. For example, normal and routine expenses resulting from an activity's efforts to execute its mission are generally categorized in U.S. Government Standard General Ledger (SGL) account 6100; benefit expense incurred by a program agency charged with providing benefit payments shall be recorded in SGL account 6400.

★ 170105. Miscellaneous items result from extraordinary transactions, prior period adjustments, and changes in actuarial liabilities.

★ 170106. The treatment of expense items by some DWCF activities is different from the treatment accorded to expenses related to appropriation funded activities. For some activity groups in the DWCF, such as depot maintenance, expenses are accumulated by job order number in the "Work in Process" account and subsequently are billed to customers in summary. Other activity groups, such as supply management, record civilian personnel costs as expense to the activity or cost center as a whole, in the same manner as appropriated funded activities.

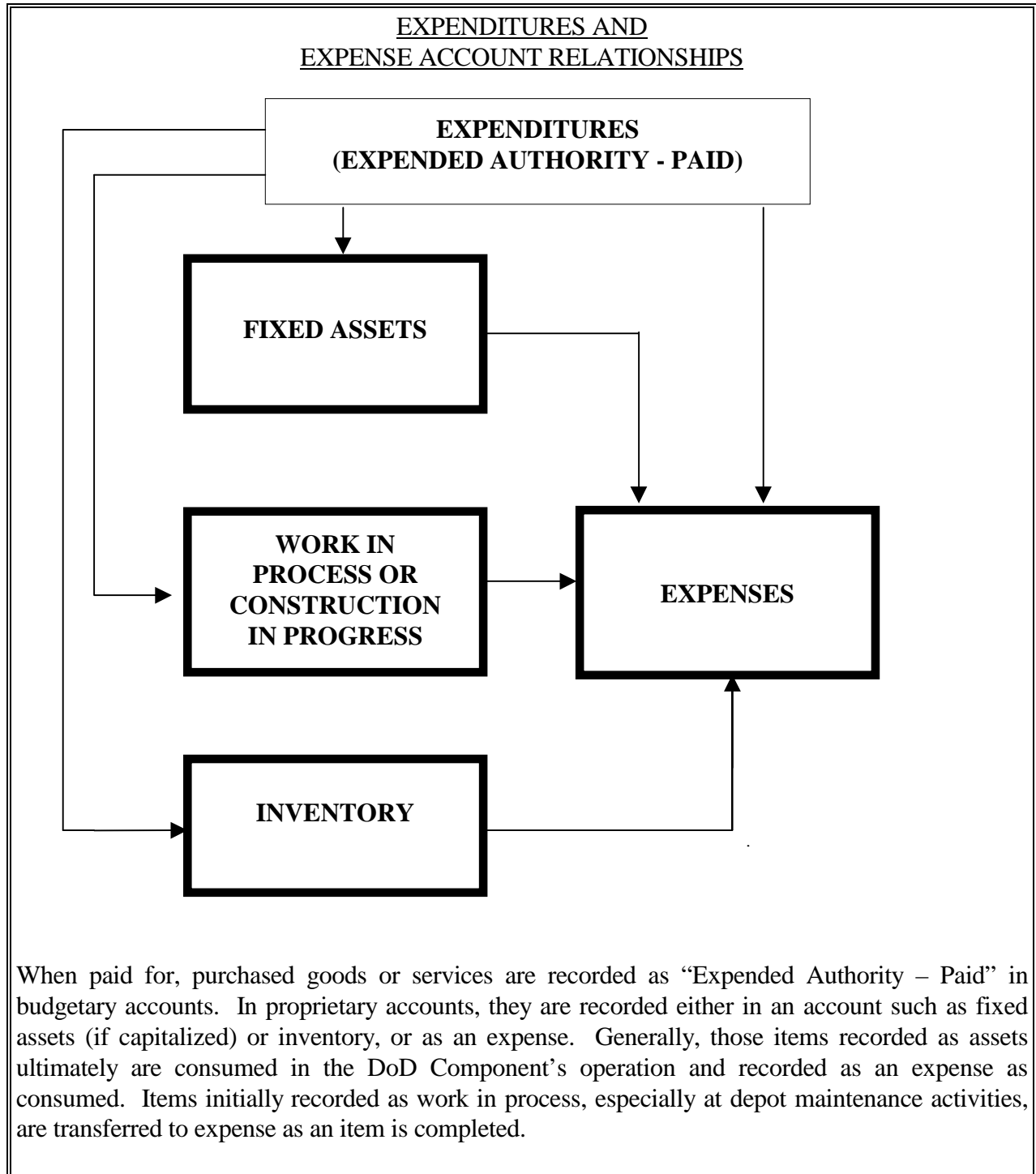


FIGURE 17-1

1702 ACCOUNTING POLICY FOR EXPENSES AND MISCELLANEOUS ITEMS

★ 170201. The Department is accountable for its stewardship in expending resources necessary in carrying out its missions. Examples of operating expenses include personnel costs, contractual services, and the purchase of operating materials and supplies. Expenses also can include an allocation of prior capital outlays (depreciation/amortization) when such information is necessary for management decision-making purposes, to meet external reporting requirements, or to recover costs of operations.

★ 170202. Particular attention is to be given to expenses incurred by research and development programs, or related to the search for knowledge and the conversion of knowledge into use for DoD missions.

★ A. Expenses incurred for research and development shall be recorded and reported as an expense in the period incurred.

★ B. Costs for property, plant or equipment (PP&E) acquired or constructed for a particular research and development project shall be capitalized if the acquisition cost exceeds the Department's capitalization threshold (see subparagraph 060103.A.4, Chapter 6 of Volume 4 of this Regulation) and the items have a life expectancy of more than 2 years. Chapter 6 of this Volume provides accounting guidance for capitalizing and depreciating or amortizing assets.

★1703 PRESENTATION IN FINANCIAL STATEMENTS

★ 170301. Program Costs. Program Costs shall be reported in the Chief Financial Officer financial statements in the "Statement of Net Costs" as required by Volume 6B, "Form and Content of the Department of Defense (DoD) Audited Financial Statements," of this Regulation. These costs include the full costs of the program outputs and consist of the direct costs and all other costs that can be directly traced, assigned on a cause and effect basis, or reasonably allocated to a program's outputs. Program costs also include any nonproduction costs that can be assigned to a program but not to its outputs. The costs of program outputs shall include the costs of services provided by other entities regardless of whether the providing entity is fully reimbursed. The costs of program outputs also shall include costs that are paid in total or in part by other entities to the extent that accounting standards require them to be recognized in financial statements. For example, DoD entities shall recognize imputed costs of pensions and other retirement benefit expenses in their financial statements. Imputed costs are the excess of the costs actually incurred by employing agencies for covered employees over the total contributions made by and for covered employees. The costs of goods and services provided to other federal government programs shall be reported separately from the costs of goods and services provided to the public. The former costs are labeled "governmental;" the latter are labeled "public." "Governmental" costs are eliminated in the Financial Report of the U.S. Government. Costs related to the production of outputs shall be reported separately from costs that are not related to the production of outputs (i.e., nonproduction costs). In addition, the following nonproduction costs shall be reported separately from other nonproduction costs, if incurred:

★ A. The cost of acquiring, constructing, improving, reconstructing, or renovating National Defense PP&E.

★ B. The cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets.

★ C. The acquisition cost of acquiring stewardship land.

★ 170302. Losses. Losses should be recognized in determining the net income for the period.

★1704 ACCOUNTING FOR EXPENSES

★ 170401. Operating Expenses. The following sections discuss each type of expense included in the U.S. Government SGL. Guidance on specific general ledger accounts that address “Operating Expenses/Program Costs,” “Interest Expense,” “Cost of Goods Sold,” “Applied Overhead,” and expenses not requiring the use of budgetary resources are contained at the end of this chapter beginning with Figure 17-2.

★ A. The transactions discussed frequently will require a compound entry; that is, entries must be made in both the proprietary accounts and the budgetary accounts.

★ B. Entries that affect direct program “Expended Authority” (Paid and Unpaid), also must include postings to “Appropriations Used” (Revenue), and “Unexpended Appropriations” (Equity). Additional information on budgetary accounts not covered in this chapter are included in Volume 3, “Budget Execution – Availability and Use of Budgetary Resources” of this Regulation.

★ 170402. For expense transactions that require the use of budgetary authority, the budgetary entry is made following the proprietary entry in the sample entries illustrating the use of the account.

★ 170403. Some expense transactions do not require the use of budgetary authority and, therefore, only proprietary accounts are charged. Such expenses are most commonly the result of allocating expenses over more than one reporting period (e.g., depreciation expense), recognizing costs incurred but paid for by another reporting entity (e.g., imputed costs), or recognizing costs to be paid for at a later date (e.g., future funded expenses).

★1705 OPERATING EXPENSES/PROGRAM COSTS (ACCOUNT 6100)

★ 170501. “Operating Expenses/Program Costs” is a posting account established to accumulate expenses for personnel, travel, communications, contractual services, and other program expenses. Expenses posted to this account often represent transactions requiring that a budgetary entry moving obligations from the unexpended obligation (undelivered order) to the expended authority stage be made. The DWCF activities, as a management prerogative, routinely post operating expenses/program costs to a cost of goods sold account (either directly or via work in

process or construction in progress accounts) so that costs may be matched to revenue upon completion of the task or the filling of an order.

★ 170502. In addition to the information contained in this general ledger, accounting systems shall have the ability to report expenses at the detail necessary to support budget preparation and applicable cost accounting requirements.

★ 170503. Below are sample entries to record operating expenses/program costs:

★ A. The following compound entry records, for a direct program, the amount of goods and services ordered and obligated which have been actually or constructively received and for which amounts remain unpaid or have been prepaid or advanced.

| | | |
|----|------|----------------------------------|
| Dr | 6100 | Operating Expenses/Program Costs |
| Cr | 2110 | Accounts Payable |

and

| | | |
|----|------|---------------------------------|
| Dr | 4801 | Unexpended Obligations - Unpaid |
| Cr | 4901 | Expended Authority - Unpaid |

and

| | | |
|----|------|---------------------------|
| Dr | 3100 | Unexpended Appropriations |
| Cr | 5700 | Appropriations Used |

or

| | | |
|----|------|----------------------------------|
| Dr | 6100 | Operating Expenses/Program Costs |
| Cr | 1410 | Advances to Others |
| Cr | 1450 | Prepayments |

and

| | | |
|----|------|-------------------------------|
| Dr | 4802 | Unexpended Obligations - Paid |
| Cr | 4902 | Expended Authority - Paid |

and

| | | |
|----|------|---------------------------|
| Dr | 3100 | Unexpended Appropriations |
| Cr | 5700 | Appropriations Used |

★ B. The following entries record, for a reimbursable program, (1) the amount of goods and services ordered and obligated which have been actually or constructively received

and for which amounts remain unpaid or have been prepaid or advanced and (2) the earnings for reimbursable work performed.

Dr 6100 Operating Expenses/Program Costs
Cr 2110 Accounts Payable

and

Dr 4801 Unexpended Obligations - Unpaid
Cr 4901 Expended Authority - Unpaid

and

Dr 4251 Reimbursements and Other Income Earned – Receivable
Cr 4221 Unfilled Customer Orders Without Advance

or

Dr 6100 Operating Expenses/Program Costs
Cr 1410 Advances to Others
Cr 1450 Prepayments

and

Dr 4802 Unexpended Obligations - Paid
Cr 4902 Expended Authority – Paid

and

Dr 4152 Reimbursements and Other Income Earned – Collected
Cr 4222 Unfilled Customer Orders With Advance

★ 170504. Goods and services (costs) purchased from other government programs (i.e., intragovernmental) shall be recorded separately from those purchased from nonfederal entities (i.e., the public).

★1706 CONTRA BAD DEBT EXPENSE - INCURRED FOR OTHERS (ACCOUNT 6190)

★ 170601. This account is used in conjunction with recording bad debt expense related to accounts receivable held for others, collections on which must be deposited to the U.S. Treasury. It is used as an offset to reduce the related liability and payable to the U.S. Treasury and is netted against bad debt expense before reporting that expense on the agency operating statement.

★ 170602. The entry to record a bad debt expense incurred for others under the general reserve method, where an allowance for loss and a bad debt expense has already been established based upon a percentage of probable loss, is:

| | | |
|----|------|--|
| Dr | 6720 | Bad Debt Expense |
| | Cr | 1319 Allowance for Loss on Accounts Receivable |

At the end of the reporting period, the following entry is made to offset the payable and is netted against bad debt expense before reporting that expense on the agency's operating statement.

| | | |
|----|------|--|
| Dr | 2980 | Custodial Liability |
| | Cr | 6190 Contra Bad Debt Expense - Incurred for Others |

★1707 ADJUSTMENT TO SUBSIDY EXPENSE (ACCOUNT 6199)

★ 170701. This account is used to record the amount of adjustment to subsidy expense in a program fund to reflect the amount of subsidy funds transferred to a special receipt account by the financing fund as a result of a downward reestimate. This account also shall be used for recording the effect of a negative subsidy on the program fund.

★ 170702. Do not use this account without the prior approval of the Office of the Under Secretary of Defense (Comptroller) (OUSDC).

★1708 INTEREST EXPENSES ON BORROWING FROM TREASURY (ACCOUNT 6310)

★ 170801. "Interest Expenses on Borrowing From Treasury" is used to record interest expense incurred during the current fiscal year (FY) on amounts borrowed from the U.S. Treasury.

★ 170802. The entry to record interest expense on borrowing from the U.S. Treasury is:

| | | |
|----|------|---|
| Dr | 6310 | Interest Expense on Borrowing from Treasury |
| | Cr | 2140 Accrued Interest Payable |

★1709 INTEREST EXPENSES ON SECURITIES (ACCOUNT 6320)

★ 170901. "Interest Expenses on Securities" is used to record the interest expense incurred during the current FY on federal securities.

★ 170902. No DoD activity is authorized to issue federal securities. Accordingly, no entries shall be posted to this account.

★1710 OTHER INTEREST EXPENSES (ACCOUNT 6330)

★ 171001. “Other Interest Expenses” is used to record all interest expenses incurred by DoD activities as a result of late payments of accounts payables, loans, and current interest accruing on amounts owed others not classified above.

171002. The account shall be supported by subsidiary accounts to show the types of transactions (i.e., accounts payables, loans, etc.) for which interest expenses were incurred.

★ A. The following entry illustrates the most common entries used for this account.

| | | |
|----|------|-------------------------------|
| Dr | 6330 | Other Interest Expense |
| | Cr | 2140 Accrued Interest Payable |

and

| | | |
|----|------|----------------------------------|
| Dr | 4801 | Unexpended Obligations - Unpaid |
| | Cr | 4901 Expended Authority – Unpaid |

and

| | | |
|-----|------|---------------------------|
| *Dr | 3100 | Unexpended Appropriations |
| | *Cr | 5700 Appropriations Used |

*NOTE: Use only if a direct appropriation is used. No DWCF activities shall use this entry.

B. Sources for entries to this account include journal vouchers with supporting documentation showing the computation of interest expenses and disbursement vouchers.

★ C. Interest owed other government programs (i.e., intragovernmental) shall be recorded separately from that owed nonfederal entities (i.e., the public).

1711 BENEFIT EXPENSE (ACCOUNT 6400)

★ 171101. The amount of benefit expense (such as employment benefits, entitlement benefits due and payable, or insurance and guarantee benefits) incurred by the program agency and/or administering agency for benefit payments.

★ 171102. The account shall be supported by subsidiary accounts to show the types of transactions for which entitlement benefits were incurred.

★ 171103. The following entry illustrates the most common entries used for this account.

| | | |
|----|------|---|
| Dr | 6400 | Benefit Expense |
| | Cr | 2160 Entitlement Benefits Due and Payable |

★1712 COST OF GOODS SOLD (ACCOUNT 6500)

★ 171201. “Cost of Goods Sold” is used to record the cost of goods or services sold from stock, by DWCF activities, or by other DoD activities authorized to provide services or material to other federal government agencies, including other DoD Components, or nonfederal government organizations.

★ 171202. This account is used predominantly by revolving fund activities. Appropriated fund activities also shall use this account to support reimbursable programs when necessary. Trust fund activities that need to account for products delivered to other organizations also may use this account.

★ 171203. Work in process or construction in progress accounts shall be used to accumulate the costs of goods or services in accordance with guidance contained in Chapter 4 and Chapter 6 of this Volume. The amounts recorded in these account series, as well as amounts recorded in applicable inventory accounts, shall be the basis for determining the amounts to be recorded as cost of goods sold.

★ 171204. The following entry illustrates the most common entries used for this account.

| | | | |
|---|----|------|-------------------------------------|
| ★ | Dr | 6500 | Cost of Good Sold |
| | | Cr | 1521 Inventory Purchased for Resale |
| | | Cr | 1526 Inventory - Work in Process |

★ 171205. Sources for entries to this account are journal vouchers with supporting worksheets or schedules showing the computation of cost of goods sold, shipping documents, and billing documents.

★ 171206. Goods and services (costs) provided to other government programs (i.e., intragovernmental) shall be recorded separately from those provided to nonfederal entities (i.e., the public).

1713 APPLIED OVERHEAD (ACCOUNT 6600)

171301. “Applied Overhead” is used to record the amount of overhead distributed to work in process or construction in progress accounts. As such, this account shall be used by DWCF activities, and other activities operating a substantial reimbursable program.

171302. For guidance on the use of this account, see Chapters 20 and 21 of this Volume.

★ 171303. The following entry illustrates the most common entries used for this account.

★ A. To record the allocation of indirect expenses to work in process or construction in progress.

| | | |
|----|------|-----------------------------|
| Dr | 1526 | Inventory - Work in Process |
| Dr | 1720 | Construction in Progress |
| Cr | 6600 | Applied Overhead |

★ B. To record the assignment of indirect expenses to the applied overhead account. After application and assignment of costs, variances are closed to “Cumulative Results of Operations.”

| | | |
|----|------|----------------------------------|
| Dr | 6600 | Applied Overhead |
| Cr | 6100 | Operating Expenses/Program Costs |

★ 171304. Goods and services (costs) provided other government programs (i.e., intragovernmental) shall be recorded separately from those provided nonfederal entities (i.e., the public).

★1714 DEPRECIATION, AMORTIZATION AND DEPLETION (ACCOUNT 6710)

★ 171401. “Depreciation, Amortization and Depletion” is used to record the allocation of the cost of General PP&E assets acquired during the year, as well as General PP&E assets acquired in previous years. The amounts to be recorded for depreciation, amortization, and depletion shall be determined in accordance with the guidance contained in Chapters 1, 6, and 7 of this Volume.

★ 171402. Accounting entries for recording depreciation:

| | | |
|----|---|--|
| Dr | 6710 | Depreciation, Amortization and Depletion |
| Cr | 1739, 1749, 1759, 1819, 1829, 1839 and 1849 | Accumulated Depreciation, Amortization and Depletion |

★ 171403. Sources for entries to this account are property records and/or journal vouchers supported by worksheets showing the basis for depreciation computations.

★1715 BAD DEBT EXPENSE (ACCOUNT 6720)

★ 171501. “Bad Debt Expense” is used to record estimated amounts of uncollectible receivables during the accounting period. Normally, estimates of uncollectible accounts receivable shall be limited to those collectible from the public. Except where experience indicates otherwise, DoD Components shall record a bad debt expense using an annual percentage rate of .001 of the current outstanding receivables balances from the public.

★ 171502. This account may be used by all DoD activities. Revolving fund activities may use this account to accumulate bad debt expenses for work in process or construction in progress. Appropriated and trust fund activities that need to account for such expenses also may use this account.

★ 171503. General Reserve Method. While other methods may be recognized and considered appropriate, the general reserve method is considered the most suitable for DoD Component use in determining the amount of uncollectible accounts receivable. Under this method, a reserve is based upon bad debt experience and changes in outstanding receivable balances. The following entry (used to establish a reserve for estimated uncollectible amounts) illustrates the most common entries used for this account.

| | | | |
|----|------|------------------|---|
| Dr | 6720 | Bad Debt Expense | |
| | Cr | 1319 | Allowance for Loss on Accounts Receivable |
| | Cr | 1349 | Allowance for Loss on Interest Receivable |
| | Cr | 1359 | Allowance for Loss on Loans Receivable |

★ 171504. Sources for entries to this account include journal vouchers supported by worksheets showing computations of estimated bad debts.

★1716 IMPUTED COSTS (ACCOUNT 6730)

★ 171601. This amount represents costs incurred which are paid in total or in part by other entities. Examples include, but are not limited to, military personnel costs not paid by the benefiting activity, future postemployment benefits, and environmental cleanup costs not reimbursed to the entity administering the fund when the administering fund is outside the DoD reporting entity.

★ 171602. This account shall be used by all DoD activities receiving goods or services not reimbursed to an activity outside the reporting entity. For example, environmental cleanup costs paid for from Defense Agency (Treasury Index (TI) 97) funds but created by one of the Military Departments. Revolving fund activities may use this account to accumulate costs for work in process or construction in progress. Appropriated and trust fund activities that need to account for such expenses also may use this account.

★ 171603. The following entry records current year changes for imputed costs for costs not reimbursed to the fund administering the program.

| | | | |
|----|------|---------------|---------------------------|
| Dr | 6730 | Imputed Costs | |
| | Cr | 5780 | Imputed Financing Sources |

★ Sources for entries to this account include journal vouchers supported by worksheets showing computations for estimated amounts reported by fund administering activities.

★1717 OTHER EXPENSES NOT REQUIRING BUDGETARY RESOURCES (ACCOUNT 6790).

★ 171701. Represents other costs which do not require budgetary resources.

★ 171702. Do not use this account without the prior approval of the OUSD(C).

★1718 FUTURE FUNDED EXPENSES (ACCOUNT 6800)

★ 171801. Represents the amount of accrued expenses which are required to be funded from future year appropriations. Examples include, but are not limited to, accrued annual leave expense, accrued worker's compensation, upward reestimates for credit reform loan programs, and projected future cleanup costs associated with the removing, containing, and/or disposing of hazardous materials associated with PP&E.

★ 171802. This account shall be used by all DoD activities to record accrued expenses required to be funded from future year appropriations.

★ 171803. The most common entries to this account include unfunded changes to the accruals shown below:

| | | |
|----|------|-----------------------------------|
| Dr | 6800 | Future Funded Expenses |
| | Cr | 2220 Accrued Unfunded Liabilities |
| | Cr | 2920 Contingent Liabilities |
| | Cr | 2995 Accrued Cleanup Costs |

★1719 NONPRODUCTION COSTS (6900)

★ 171901. This represents costs incurred and recognized that are linked to events other than the production of goods and services. Examples include, but are not limited to, "Other Postemployment Benefits" (OPEB); the acquisition of "National Defense PP&E," "Heritage PP&E," and "Stewardship land;" reorganization costs; and nonrecurring cleanup costs resulting from facility abandonments (when applicable amounts previously have not been accrued). Also includes the cost of modification to or improvement of stewardship assets.

★ 171902. This account shall be used by all DoD activities to record transactions related to events other than the production of goods and services. Appropriated and trust fund activities that benefit from nonproduction costs but do not expend resources (such as when other entities pay for environmental cleanup costs) should record these costs as "Imputed Costs" (SGL Account 6730) rather than in this account.

★ 171903. The following entries illustrate the normal proprietary and budgetary entries to this account.

★ A. To record the receipt of National Defense PP&E, such as a nuclear submarine, and the accrued environmental cleanup costs associated with the asset when the asset has served its useful purpose, the entry is:

| | | |
|----|------|-----------------------|
| Dr | 6900 | Non-Production Costs |
| | Cr | 2110 Accounts Payable |

and

| | | |
|----|------|---------------------------|
| Dr | 3100 | Unexpended Appropriations |
| | Cr | 5700 Appropriations Used |

To record the accrued cleanup costs and associated liability recognized at time of acquisition, the entry is:

| | | |
|----|------|----------------------------|
| Dr | 6800 | Future Funded Expenses |
| | Cr | 2995 Accrued Cleanup Costs |

★ B. The account shall be supported by subsidiary accounts to show the types of transactions (i.e., purchase of National Defense PP&E or Heritage Assets, Stewardship Land, OPEB, nonrecurring cleanup costs, reorganization costs or other nonproduction costs) for which expenses were incurred.

★ C. Sources for entries to this account include receipt vouchers, journal vouchers with supporting documentation, showing the computation of accrued cleanup costs and miscellaneous obligation documents.

★ 1720 LOSSES ON DISPOSITION OF ASSETS (ACCOUNT 7210)

★ 172001. “Losses on Disposition of Assets” is used to record a loss incurred on the disposition of DoD-owned assets. Such losses can result from the sale, exchange, casualty, or retirement of assets.

★ 172002. This account ordinarily shall be used only by DoD activities authorized to dispose of DoD property. However, any DoD Component having control over personal and real property may incur such losses due to events beyond its control. This account shall be used to record such losses.

★ 172003. The following illustrates the most common entries used for this account.

| | | |
|----|------|--|
| Dr | 1010 | Fund Balance With Treasury |
| Dr | 1739 | Accumulated Depreciation on Buildings, Improvements, and Renovations |
| Dr | 1759 | Accumulated Depreciation on Equipment |
| Dr | 7210 | Losses on Disposition of Assets |

Cr 1730 Buildings, Improvements, and Renovations
Cr 1750 Equipment

★ Sources for entries to this account include collection documents, authorizations to dispose of assets, journal vouchers with supporting worksheets showing the loss computation, and reports of survey.

★1721 OTHER LOSSES (ACCOUNT 7290)

★ 172101. “Other Losses” is a posting account used to record the loss on assets resulting from events other than disposition, such as investment losses and miscellaneous losses.

★ 172102. Losses are recognized by revolving fund activities to record shrinkage, excess, obsolescence, spoilage, and other inventory losses cited in Volume 11B, Chapter 55 of this Regulation. General fund activities are to record losses not reported elsewhere.

Dr 7290 Other Losses
Cr 1524 Inventory - Excess, Obsolete and Unserviceable

★ 172103. Investment losses are recognized to record losses realized on the sale or redemption of investments (including securities).

Dr 1010 Fund Balance With Treasury
Dr 7290 Other Losses
Cr 1610 Investment in U.S. Treasury Securities Issued by Public
Debt
Cr 1612 Premium on U.S. Government Securities Issued by
Public Debt

★ 172104. This account is used also by DoD Components to record miscellaneous losses, such as a loss resulting from converting foreign currency holdings to U.S. dollars.

Dr 1010 Fund Balance With Treasury
Dr 7290 Other Losses
Cr 1200 Foreign Currency

★ 172105. This account shall be used by DoD Component general fund activities to record miscellaneous losses (e.g., ammunition) identified during inventory counts in operating materials and supplies.

Dr 7290 Other Losses
Cr 1511 Operating Materials and Supplies Held for Use

★ 172106. Sources for entries to this account include journal vouchers supported by documentation; collection vouchers, and authorizations to redeem DoD-held securities.

★1722 EXTRAORDINARY ITEMS (ACCOUNT 7300)

★ 172201. “Extraordinary Items” is used to record transactions or events so unusual in type or amount as to be accorded special treatment in the accounts or to be accorded separate disclosure in financial statements. Examples include costs incurred as a result of earthquakes, hurricanes, fires, or other natural disasters.

★ 172202. The following entry illustrates the most common entries used to account for the loss of property resulting from a natural disaster.

| | | | |
|----|------|--|--|
| Dr | 7300 | Extraordinary Items | |
| Dr | 1739 | Accumulated Depreciation on Buildings, Improvements, and Renovations | |
| Dr | 1759 | Accumulated Depreciation on Equipment | |
| | Cr | 1730 | Buildings, Improvements, and Renovations |
| | Cr | 1750 | Equipment |

172203. Sources for entries to this account include journal vouchers with worksheets showing the basis for the amounts recorded, and reports of survey.

★1723 PRIOR PERIOD ADJUSTMENTS (ACCOUNT 7400)

★ 172301. “Prior Period Adjustments” is used to record those transactions that relate to prior periods resulting from unreported or misreported gains, losses; income or expenses. All general ledger entries affecting an erroneous transaction will be examined to determine the type of correction needed. If an expense, revenue, gain or loss was omitted or erroneously posted, then the “Prior Period Adjustment” general ledger account will be used. If the transaction had no effect on net income, then the correction should be posted directly to assets, liabilities or equity.

172302. This account shall be used by all DoD activities, as appropriate.

★ 172303. The following illustrates an entry used for this account. To record an expense that was not posted in a prior year after the installation books have been closed and the original transaction, had it been posted, would have resulted in a debit to an expense and a credit to a liability account.

| | | | |
|----|------|--------------------------|----------------------|
| Dr | 7400 | Prior Period Adjustments | |
| | CR | 2995 | Accrued Cleanup Cost |

★ 172304. Sources for entries to this account include journal vouchers with worksheets supporting the computation of the adjustment amount.

★1724 DISTRIBUTION OF INCOME - DIVIDEND (ACCOUNT 7500)

★ 172401. “Distribution of Income - Dividend” is used to record income distributions, such as certain types of income transferred to the general fund of the Treasury, interest on capital, and franchise taxes.

★ 172402. This account normally shall not be used by DoD Components. Should the situation arise requiring such distributions, authorization to use this account shall be obtained from the OUSD(C).

★1725 CHANGES IN ACTUARIAL LIABILITY (ACCOUNT 7600)

★ 172501. “Changes in Actuarial Liability” is used to record increases or decreases in liabilities determined on an actuarial basis. Within the Department, this applies to actuarial benefits for the DoD military retirement program, OPEB (military health benefits), voluntary separation incentive benefits, DoD education benefits, and other benefits for an entity functioning as an administering activity.

172502. This account shall be used only by those DoD Components responsible for accounting for benefit programs established using actuarial techniques.

172503. The following entry illustrates the most common entries used for this account.

★ A. To record an increase in actuarial liability for the DoD Military Retirement Fund or for OPEB.

| | | |
|----|------|----------------------------------|
| Dr | 7600 | Changes in Actuarial Liability |
| | Cr | 2610 Retirement Plans |
| | Cr | 2690 Other Actuarial Liabilities |

★ B. To record a decrease in actuarial liability for the DoD Military Retirement Fund or for OPEB.

| | | |
|----|------|-------------------------------------|
| Dr | 2610 | Retirement Plans |
| Dr | 2690 | Other Actuarial Liabilities |
| | Cr | 7600 Changes in Actuarial Liability |

172504. Sources for entries to this account include journal vouchers with documentation defining the adjustments recommended by the program actuary.

★1726 CLOSING ENTRIES

After preparing the prescribed financial statements for the FY ended September 30, the following entries shall be made for all accounts.

| | | |
|----|------|--|
| Dr | 3310 | Cumulative Results of Operations |
| Cr | 6100 | Operating Expenses/Program Costs |
| Cr | 6310 | Interest Expense on Borrowing from Treasury |
| Cr | 6320 | Interest Expense on Securities |
| Cr | 6330 | Other Interest Expenses |
| Cr | 6400 | Benefit Expense |
| Cr | 6500 | Cost of Goods Sold |
| Cr | 6710 | Depreciation, Amortization and Depletion |
| Cr | 6720 | Bad Debt Expense |
| Cr | 6730 | Imputed Costs |
| Cr | 6790 | Other Expenses Not Requiring Budgetary Resources |
| Cr | 6800 | Future Funded Expenses |
| Cr | 6900 | Nonproduction Costs |
| Cr | 7210 | Losses on Disposition of Assets |
| Cr | 7290 | Other Losses |
| Cr | 7500 | Distribution of Income - Dividend |

and

| | | |
|----|------|---|
| Dr | 6190 | Contra Bad Debt Expense - Incurred for Others |
| Dr | 6199 | Adjustment to Subsidy Expense |
| Dr | 6600 | Applied Overhead |
| Cr | 3310 | Cumulative Results of Operations |

and (debit or credit depending upon the ending balance)

| | | |
|----|------|----------------------------------|
| Dr | 3310 | Cumulative Results of Operations |
| Cr | 7300 | Extraordinary Items |
| Cr | 7400 | Prior Period Adjustments |
| Cr | 7600 | Changes in Actuarial Liability |

| ★ACCOUNT NO. 6100 | |
|---|--------|
| OPERATING EXPENSES/PROGRAM COSTS | |
| DESCRIPTION: Operating expenses and program costs not otherwise classified. Operating expenses and program costs arising from transactions among federal agencies and from transactions of the federal government or an entity of the federal government with nonfederal entities (encompasses domestic and foreign persons and organizations outside the U.S. Government). | |
| DEBIT | CREDIT |
| <p>1. Charges for employee and employer share for personnel services.</p> <p>Contra: 2210</p> <p>(Note: Benefits (Object Class 11 data), including employee salary, pensions, retirement health benefits and other retirement benefits is included in SGL account 6400 Benefit Expense.)</p> <p>2. To record charges incurred for travel and transportation of persons; transportation of things; rents, communications, and utilities; printing and reproduction; other contractual services; supplies and materials; grants, subsidies, and contributions; and insurance claims and indemnities for which payment has not yet been made.</p> <p>Contra: 2110</p> | |
| NORMAL BALANCE: DEBIT | |
| Figure 17-2 | |

| ★ACCOUNT NO. 6190 | |
|---|---|
| CONTRA BAD DEBT EXPENSE - INCURRED FOR OTHERS | |
| <p>DESCRIPTION: This account is used in conjunction with recording bad debt expense related to accounts receivable held for others, collections on which must be deposited to the U.S. Treasury. It is used as an offset to reduce the related liability and payable to the U.S. Treasury and is netted against bad debt expense before reporting that expense on the agency's operating statement.</p> | |
| DEBIT | CREDIT |
| | <p>1. To record the offset to bad debt expense where an entity is responsible for collecting accounts receivable for another activity and has established an allowance for bad debts.</p> <p>Contra: 2980</p> |
| NORMAL BALANCE: CREDIT | |
| FIGURE 17-3 | |

| ★ACCOUNT NO. 6199 | |
|---|--------|
| ADJUSTMENT TO SUBSIDY EXPENSE | |
| DESCRIPTION: The amount of adjustment to subsidy expense in the program fund to reflect the amount of subsidy funds transferred to a special receipt account by the financing fund as a result of a downward reestimate. This account also will be used for recording the effect of negative subsidy on the program fund. | |
| DEBIT | CREDIT |
| Do not use this account without the prior approval of the Office of the Under Secretary of Defense (Comptroller). | |
| NORMAL BALANCE: CREDIT | |
| FIGURE 17-4 | |

| ACCOUNT NO. 6310 | |
|---|--------|
| INTEREST EXPENSES ON BORROWING FROM TREASURY | |
| DESCRIPTION: Represents the amount of interest incurred by an agency during the current fiscal year on amounts borrowed from the U.S. Treasury. | |
| DEBIT | CREDIT |
| 1. To record interest expenses on funds borrowed from the U.S. Treasury. Contra: 2140 | |
| NORMAL BALANCE: DEBIT | |
| FIGURE 17-5 | |

| | |
|--|--------|
| ACCOUNT NO. 6320 | |
| INTEREST EXPENSES ON SECURITIES | |
| DESCRIPTION: The amount of interest expense incurred by the agency during the current fiscal year on federal securities. | |
| DEBIT | CREDIT |
| <p>Do not use this account without the prior approval of the Office of the Under Secretary of Defense (Comptroller).</p> | |
| NORMAL BALANCE: DEBIT | |
| FIGURE 17-6 | |

| ★ACCOUNT NO. 6330 | |
|---|--------|
| OTHER INTEREST EXPENSES | |
| DESCRIPTION: Represents the amount of interest expense incurred by the agency from the late payment of accounts and loans, and current interest accruing on amounts owed others not otherwise classified. | |
| DEBIT | CREDIT |
| 1. Accrued interest expense. Contra: 2140 | |
| NORMAL BALANCE: DEBIT | |
| FIGURE 17-7 | |

| ★ACCOUNT NO. 6400 | |
|--|--------|
| BENEFIT EXPENSE | |
| DESCRIPTION: The amount of benefit expense (such as employment benefits, entitlement benefits due and payable, or insurance and guarantee benefits) incurred by the program agency and/or administering agency for benefit payments. | |
| DEBIT | CREDIT |
| <p>1. Charges for employee and employer share for benefits (Object Class 11 data), including employee salary, pensions, retirement health benefits and other retirement benefits.</p> <p>Contra: 2210</p> <p>(Note: Object Class 11 data was previously included in SGL account 6100, Operating Expenses/Program Costs.)</p> | |
| NORMAL BALANCE: DEBIT | |
| Figure 17-8 | |

| ★ACCOUNT NO. 6500 | |
|---|--------|
| COST OF GOODS SOLD - INTRAGOVERNMENTAL | |
| DESCRIPTION: The cost of goods sold at point of sale including the inventory value of commodities sold from stock and all labor, material, and other expenses applied to manufactured items sold. | |
| DEBIT | CREDIT |
| 1. Cost of goods sold. Contra: 1521, 1526, 1527, and 1572 | |
| NORMAL BALANCE: DEBIT | |
| FIGURE 17-9 | |

| ★ACCOUNT NO. 6600 | |
|--|--|
| APPLIED OVERHEAD | |
| DESCRIPTION: The amount of overhead cost distributed to work in process or construction in progress. | |
| DEBIT | CREDIT |
| <p>1. Reduce operating/program expense accounts for overhead applied to work in process and construction in progress.</p> <p>Contra: Applicable expenses in the 6000 series of SGL accounts.</p> | <p>1. Apply overhead to work in process and construction in progress.</p> <p>Contra: 1526 and 1720</p> |
| NORMAL BALANCE: CREDIT | |
| FIGURE 17-10 | |

| ★ACCOUNT NO. 6710 | |
|--|--------|
| DEPRECIATION, AMORTIZATION, AND DEPLETION | |
| DESCRIPTION: Expenses recognized by the process of allocating cost of assets (tangible and intangible) over their useful lives/periods benefited. | |
| DEBIT | CREDIT |
| <p>1. To record depreciation expense for improvements to land; buildings, improvements and renovations; other structures and facilities; equipment, assets under capital lease, and amortization expense for leasehold improvements, and information technology software.</p> <p>Contra: 1719, 1739, 1749, 1759, 1819, 1829, and 1839</p> <p>2. To record amortization on U.S. Treasury securities issued by public debt and securities other than by public debt.</p> <p>Contra: 1613, 1623</p> <p>3. To record depletion on natural resources.</p> <p>Contra: 1849</p> | |
| NORMAL BALANCE: DEBIT | |
| FIGURE 17-11 | |

| ★ACCOUNT NO. 6720 | |
|---|--------|
| BAD DEBT EXPENSE | |
| DESCRIPTION: The amount of bad debt expense related to uncollectible noncredit reform receivables from the public. | |
| DEBIT | CREDIT |
| <p>1. To establish an allowance for bad debts on accounts receivable due from the public using the general reserve method.</p> <p>Contra: 1319</p> <p>2. To establish an allowance for interest receivable from the public using the general reserve method and for loan programs prior to FY 1992.</p> <p>Contra: 1349</p> <p>3. To increase the Pre-FY 1992 allowance for loans receivable.</p> <p>Contra: 1359</p> | |
| NORMAL BALANCE: DEBIT | |
| FIGURE 17-12 | |

| ★ACCOUNT NO. 6730 | |
|---|--------|
| IMPUTED COSTS | |
| DESCRIPTION: Costs incurred which are paid in total or in part by other entities. Examples include, but are not limited to, military personnel costs, pension costs not reimbursed, other retirement benefits, OPEB, and environmental cleanup costs not reimbursed to the entity administering the fund when the administering fund is outside the DoD reporting entity. | |
| DEBIT | CREDIT |
| <p>1. To record military personnel costs, pension costs, retirement benefit costs, postemployment benefit costs, and environmental cleanup costs, paid in total or in part by another activity and not reimbursed to the paying entity.</p> <p>Contra: 5780</p> | |
| NORMAL BALANCE: DEBIT | |
| FIGURE 17-13 | |

| ★ACCOUNT NO. 6790 | |
|---|--------|
| OTHER EXPENSES NOT REQUIRING BUDGETARY RESOURCES | |
| DESCRIPTION: Other costs which do not require budgetary resources; such as, accounting for the issue of Operating Materials and Supplies when the consumption method is used. | |
| DEBIT | CREDIT |
| <p>1. To record the receipt of tangible personal property by an end user for consumption in normal operations when the consumption method is used.</p> <p>Contra: 1511</p> | |
| NORMAL BALANCE: DEBIT | |
| FIGURE 17-14 | |

| ★ACCOUNT NO. 6800 | |
|---|---|
| FUTURE FUNDED EXPENSES | |
| <p>DESCRIPTION: The amount of accrued expenses which are required to be funded from future year appropriations. Examples include, but are not limited to, accrued annual leave expense, accrued worker's compensation, and upward reestimates for credit reform loan programs.</p> | |
| DEBIT | CREDIT |
| <p>1. To record the change (increase) in the unfunded accrued annual leave or workers' compensation expected to be paid from future year's appropriations.</p> <p>Contra: 2220</p> <p>2. To record or increase the estimated value of a probable contingent loss.</p> <p>Contra: 2920</p> <p>3. To record unbudgeted future projected cleanup costs for hazardous materials and disposal associated with the current portion of General and Stewardship PP&E.</p> <p>Contra: 2995</p> <p>4. To record an upward subsidy reestimate (a change in the estimated long-term cost to the government of a direct loan calculated on a net present value basis) for credit reform loan programs.</p> <p>Contra: 2170</p> | <p>1. To record the change (decrease) in the unfunded accrued annual leave or workers' compensation expected to be paid from future year's appropriations.</p> <p>Contra: 2220</p> <p>2. To record a decrease in the estimated value of a probable contingent loss.</p> <p>Contra: 2920</p> <p>3. To record unbudgeted projected cleanup costs for hazardous materials.</p> <p>Contra: 2995</p> |
| NORMAL BALANCE: DEBIT | |
| FIGURE 17-15 | |

| ★ACCOUNT NO. 6900 | |
|---|--------|
| NONPRODUCTION COSTS | |
| <p>DESCRIPTION: Costs incurred and recognized that are linked to events other than the production of goods and services. Examples include, but are not limited to, OPEB (refer to SFFAS No. 5, paragraph 94 -96), acquisition of National Defense PP&E, Heritage PP&E, Stewardship Land, reorganization costs, and nonrecurring cleanup costs resulting from facility abandonments that are not accrued.</p> | |
| DEBIT | CREDIT |
| <p>1. To record the acquisition, modification, renovation, improvement, restoration, or reconstruction of National Defense PP&E.</p> <p>Contra: 1010, 2110</p> <p>2. To record the acquisition, modification, renovation, improvement, restoration, or reconstruction of Heritage PP&E.</p> <p>Contra: 1010, 2110</p> <p>3. To record the acquisition, modification, or improvement of Stewardship L [-=p0</p> <p>Contra: 1010, 2110</p> <p>4. To record the current costs associated with OPEB for salary continuation; counseling and training; and other special payments paid by the employer entity.</p> <p>Contra: 1010, 2210</p> | |
| NORMAL BALANCE: DEBIT | |
| FIGURE 17-16 | |

| ★ACCOUNT NO. 6900 | |
|---|--------|
| NONPRODUCTION COSTS | |
| DESCRIPTION: Continued. | |
| DEBIT | CREDIT |
| <p>5. To record costs for nonrecurring cleanup costs resulting from facility abandonments that are not accrued.</p> <p>Contra: 1010, 2110</p> <p>6. To record reorganization costs not linked to production.</p> <p>Contra: 1010, 2110</p> <p>7. To record other costs not linked to the production of goods and services, such as the expense associated with the write off of an uncollectible accounts receivable from another federal agency.</p> <p>Contra: 1310</p> | |
| NORMAL BALANCE: DEBIT | |
| FIGURE 17-16 | |

| ★ACCOUNT NO. 7210 | |
|--|--------|
| LOSSES ON THE DISPOSITION OF ASSETS | |
| DESCRIPTION: To record the loss on the disposition (such as sale, exchange, casualty, disposal, or retirement) assets. | |
| DEBIT | CREDIT |
| <p>1. The loss realized on capital asset transactions.</p> <p>Contra: 1010, 1711, 1730, 1740, 1750, 1840, 1890, 1990</p> | |
| NORMAL BALANCE: DEBIT | |
| FIGURE 17-17 | |

| ★ACCOUNT NO. 7290 | |
|---|--------|
| OTHER LOSSES | |
| DESCRIPTION: To record the loss on assets resulting from events other than disposition. | |
| DEBIT | CREDIT |
| 1. To record a loss realized on investments. Contra: 1010, 1610, 1612, 1620, 1622 2. Loss realized on conversion of foreign currencies. Contra: 1010, 1200 | |
| NORMAL BALANCE: DEBIT | |
| FIGURE 17-18 | |

| ACCOUNT NO. 7300 | |
|---|--------|
| EXTRAORDINARY ITEMS | |
| DESCRIPTION: Costs or income so unusual in type as to be accorded special treatment in the accounts or separate disclosure in financial statements. | |
| DEBIT | CREDIT |
| 1. Loss of a capital asset. Contra: 1730, 1740, 1750, 1890, 1990 | |
| NORMAL BALANCE: DEBIT | |
| FIGURE 17-19 | |

| ACCOUNT NO. 7400 | |
|--|--------|
| ★PRIOR PERIOD ADJUSTMENTS | |
| DESCRIPTION: Adjustments affecting the cumulative results of operations for correcting material errors from prior periods involving gains and losses and accounting changes with retroactive effect, including adoption of new federal financial accounting standards. | |
| DEBIT | CREDIT |
| 1. To record the one-time adjustment for hazardous waste removal and disposal liability estimate. Contra: 2995 | |
| NORMAL BALANCE: EITHER | |
| FIGURE 17-20 | |

| | |
|--|--------|
| ACCOUNT NO. 7500 | |
| DISTRIBUTION OF INCOME - DIVIDEND | |
| DESCRIPTION: Distribution of income, such as certain types of income transferred to the general fund of the Treasury, interest on capital, franchise taxes, etc. | |
| DEBIT | CREDIT |
| <p>Do not use this account without the prior approval of the Office of the Under Secretary of Defense (Comptroller).</p> | |
| NORMAL BALANCE: DEBIT | |
| FIGURE 17-21 | |

| ACCOUNT NO. 7600 | |
|---|---|
| CHANGES IN ACTUARIAL LIABILITY | |
| DESCRIPTION: The amount of increase or decrease in actuarial liability. | |
| DEBIT | CREDIT |
| 1. Record increase in accumulated plan actuarial liabilities. Contra: 2610, 2690 | 1. Record decrease in accumulated plan actuarial liabilities. Contra: 2610, 2690 |
| NORMAL BALANCE: EITHER | |
| FIGURE 17-22 | |